

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND COUNCIL ON MUSINA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Musina Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2012 (Act No.5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit

Basis of qualified opinion

Contingency liability

6. The municipality has not disclosed a contingent liability in respect of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement. I was unable to confirm the contingent liability by alternative means. Consequently, I am unable to determine whether any adjustment to contingent liability in note 43 to the financial statements was necessary

Qualified opinion

7. In my opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Musina Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairments

9. As disclosed in note 2 and 34 to the financial statements, the municipality made material impairments to the amounts of R16 973 640 and R47 408 968, respectively on receivables and property, plant and equipment as a result of inadequate collection systems and the poor condition of infrastructure assets.

Unauthorised expenditure

10. As disclosed in note 39.1 to the financial statements, unauthorised expenditure amounting to R32 079 700 was incurred as the municipality exceeded the total budget due to inadequate budgeting.

Irregular expenditure

11. As disclosed in note 39.3 to the financial statements, the municipality incurred irregular expenditure amounting to R1 160 683 due to the contravention of the supply chain management policy.

Additional matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

13. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance against predetermined objectives report as set out on pages ... to ... of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National

Treasury's annual reporting principles and whether the reported performance is consistent with the planned objective. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information (FMPPPI)*.

17. The reliability of the information in respect of the selected objective is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
18. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not supported by sufficient appropriate evidence

19. Section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 86% measures taken to improve as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures.

Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

Consistency

Reported objectives, indicators and targets not consistent with planned objectives

20. Section 41(c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 39% of the reported objectives, indicators and targets are not consistent with the objectives, indicators and targets as per approved integrated development plan. This was due to the lack of review of the completeness of reporting documents by management.

Measurability

Performance indicators not well defined

21. The National Treasury *Framework for managing programme performance information (FMPPPI)* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 56% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPPI* but did not receive the necessary training to enable application of the principles.

Indicators not verifiable

22. The National Treasury *FMPPPI* requires it must be possible to validate the process and systems that produce the indicator. A total of 72% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not

exist. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance targets not specific

23. The National Treasury *FMPPI* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 61% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance targets not measurable

24. The National Treasury *FMPPI* requires that performance targets be measurable. The required performance could not be measured for a total of 39% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance targets not time bound

25. The National Treasury *FMPPI* requires that the time period or deadline for delivery be specified. A total of 44% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Reliability of information

Reported performance not reliable

26. The National Treasury *FMPPI* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Significant important targets with respect to technical services are not reliable when compared to the evidence provided.

This was due to the lack of a dedicated official responsible for the performance management system, a lack of standard operating procedures for the accurate recording of actual achievements and frequent review of the validity of reported achievements against source documentation

Compliance with laws and regulations

27. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

28. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

Annual financial statements, performance and annual reports

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

Material misstatements of non-current assets, current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatement resulted in the financial statements receiving a qualified audit opinion.

Audit committee

30. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA
31. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
32. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
33. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
34. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

Internal audit

35. The internal audit unit did not function as required by section 165(2) of the MFMA in that it did not advise the accounting officer and report to the audit committee on matters relating to accounting procedures and practices, risk and risk management and loss control.
36. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.
37. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and Municipal planning and performance management regulation 14(1)(a).
38. The internal audit unit did not assess the functionality of the performance management system, as required by Municipal planning and performance management regulation 14(1)(b)(i).
39. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1)(b)(iii).
40. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the audit committee, as required by Municipal planning and performance management regulation 14(1)(c).

Expenditure management

41. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
42. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

43. Contracts were extended and modified without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
44. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and SCM regulation 28(1)(a).

Minimum competencies

45. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulation 14(2)(b) and 14(3).

Consequences management

46. Irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Internal control

47. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- The municipality did not have a person ultimately responsible for coordination and managing of reporting on performance at an outcome development priority level and provide training on performance information planning, management and reporting.
- The accounting officer and the council did not exercise oversight responsibilities in relation to promoting the audit committee as an independent advisory body for strengthening internal controls.
- The municipality developed an action plan to address external audit findings but the performance and compliance findings were not adequately resolved.

Financial and performance management

- The financial statements contained misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework.
- The municipality's internal controls over procurement did not prevent non-compliance with the supply chain management's policy.

Governance

- The internal audit unit was ineffective throughout the year.
- The municipal council, the accounting officer and audit committee did not exercise oversight responsibility in finding a solution that would allow the audit committee to advice the council on matters contained in the MFMA.

OTHER REPORTS

Investigation

48. During 2012 an investigation was concluded by an independent firm on request of the provincial Department of Co-operative Governance, Human Settlements and Traditional Affairs. The investigation was based on the allegation of financial irregularities at the municipality. The municipality is assessing the steps that need to be taken.

Polokwane

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence